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What You Should Know When Preparing for Your Rating Meeting: How to Make it a Success

Introduction

Many issuers have expressed a desire to learn more about rating meetings and the role they play in the rating process. In response, this special comment outlines some frequently asked questions by issuers as to what to expect from and how to prepare for a rating meeting.

Moody's values a rating meeting as an opportunity to discuss the details of an issuer's economy, finances and debt, as well as to get to know management. From an issuer's point of view, however, the prospect of meeting with a rating agency can be daunting. In preparing their presentations and answers, municipal officials know that how they come across at the rating meeting may be considered in our evaluation of administrative factors. Since Moody's assessment of management is one of the factors that goes into a credit rating, we want municipal officials to be able to put their best foot forward. Scheduling a rating meeting appropriately and knowing what to expect can make the meeting more productive for everyone.

When is a meeting appropriate?

Meetings are most helpful under the following circumstances:

- This is your first debt issue rated by Moody's
- The debt issue is particularly large, unusual, and complex
- Significant changes (positive and negative) have occurred in your financial position, debt position, economy, or administration
- Moody's has not met with representatives from your community for several years

It is important to point out that although a meeting is often helpful in these circumstances, it is by no means necessary for most bond issues. For the majority of bond ratings, most credit issues can be addressed over the phone. An issuer should never be concerned that its inability to arrange for a rating meeting will have a negative effect on a rating. There is much time and travel expense involved in arranging a meeting and Moody's realizes that it simply is not practical for every municipal issuer.



When and where should the meeting be held?

If an issuer decides to meet with a representative from Moody's, the meeting should take place at least two weeks in advance of the expected bond or note sale. Most rating meetings are held at Moody's offices in New York, Chicago, San Francisco, and Dallas. A meeting can also be scheduled in conjunction with a trip to the issuer or at the intermediary's office. The typical meeting lasts about an hour and a half, but may be longer if significant changes in an issuer's credit characteristics have taken place, or if an upcoming debt issue is particularly complex.

What documents do Moody's analysts need, and how far in advance of the meeting do they need to receive them?

Providing Moody's with a comprehensive set of documents at least one week before the meeting gives our analysts time to prepare and to become informed about your community. At a minimum, documents should include financial statements for the last three years; the current budget; the official statement; capital plan; and any legal documents related to the sale. Depending on the type of bond issue, other documents may also be needed. For example, if your community is issuing revenue bonds, Moody's analysts would like to see any feasibility studies or engineering reports. If the upcoming sale is a revenue or tax anticipation note issue, historical and projected cash flows will be requested.

Should the issuer speak with Moody's analysts before the meeting?

Yes. In fact, to ensure that you are not in for any major surprises at the meeting—in terms of materials you need, topics that will be discussed, etc.—Moody's encourages issuers to take some time to discuss key credit focus areas before we sit down together.

Which officials should attend the meeting?

Part of the benefit of a meeting is that it allows the analysts to get to know management; therefore, key officials should try to attend. Most issuers include their finance director, administrator, and sometimes some elected officials. If you have a financial advisor or underwriter, they usually attend as well.

It's not necessary to have many people at the meeting to make it successful. In fact, often a meeting with a few officials who are very informed about the issuer's finances, debt issuances, economy, and policy issues is more productive than a meeting with many officials. The nature of the topics to be discussed may also help determine the appropriate attendees. For example, if there is major litigation in progress, it may be useful for counsel to be present.

Should the issuer prepare an agenda?

Although it is fine to come to a meeting without a formal agenda, the rating meeting is usually more productive if you have a list of items that you want to highlight and an organized, logical sequence of presentation. An agenda helps to focus the presentation and ensure that you communicate your key points. Often the issuer will send the agenda prior to the meeting—to see if we would like to add topics as well. This helps ensure a smooth meeting without surprises. Also, while it definitely helps to have a planned agenda, it is not uncommon for the rating discussion to evolve in a fashion that does not completely follow your agenda, simply because Moody's may need more time to discuss some topics than others. Analysts may redirect the discussion to ensure that key credit concerns are addressed so that time spent on follow-up phone calls can be kept to a minimum.

What should the agenda cover?

A typical agenda would cover the key areas of credit analysis—the local economy, financial operations, and debt and capital management. It is helpful to spend more time on those points that are not apparent from the documents Moody's analysts have already received. For example, an audit can show that an issuer closed the previous fiscal year with a large General Fund operating deficit. The meeting is the appropriate place to discuss why the deficit occurred and expectations for future financial performance. Presentations that are the most informative are those that explore the forces underlying economic, debt, and financial trends. Moody's is also very interested in any forecasts for the future and in strategies for dealing with potential problems.

In addition, Moody's analysts want to know your credit strengths and weaknesses. Some issuers are concerned that discussing credit weaknesses will result in a lower credit rating, but this is not the case. First, Moody's analysts are usually already aware of key weaknesses, so any attempt to avoid commenting on these areas tends to increase concerns rather than reduce them. Second, outlining strategies you have for dealing with credit weaknesses will likely give us confidence that you are taking the necessary actions to address them.

Also please leave time for questions. Moody's analysts typically have lots of questions concerning your finances, debt, economy, and management strategies and practices. The meetings generally work best if there is a give-and take, even during formal presentations, so that questions can be asked as they come up and relate to the topic at hand.

What kind of aids/equipment are considered helpful to the presentation?

It's often helpful to bring materials that can make discussions of complex data easier. For example, charts detailing trends in retail sales, building permits, housing values and other key economic indicators can help focus discussion about the local economy. Similarly, a table summarizing financing plans can be a useful starting point for discussing a five-year capital program. It's important to be selective about handouts, however. Generally, a few charts and tables enhance the meeting, but too many tend to inhibit meaningful discussion.

Use of audiovisual equipment in presentations is often helpful, but is by no means necessary. If an issuer would like to, Moody's is happy to supply the necessary equipment. Please let us know prior to the meeting that such equipment will be needed.

Is it appropriate to inquire about the rating process during the meeting?

Moody's analysts welcome questions about the rating process. Of course, we cannot tell you what the credit rating and outlook will be until the analysis is complete and rating committee has met. We are, however, always happy and available to answer any questions issuers may have about the rating process and to give you some sense of the issues that are likely to be discussed in the rating committee session. After our meeting is over, please never hesitate to call us if you have any further comments or questions.

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